



Dell Inc.: Interim Progress Report



Andrew Gallagher, Mike Jordan, Omar Khan,
Ryan Kukec, Vinayak Mahtani, and Mandy
Rahal

SGMA 591 L20 Team 6
Spring 2010

**KEY STRATEGIC ISSUES:**

Dell, Inc. (Dell) is one of the major firms competing within the global PC manufacturing industry. Four key strategic issues will be addressed in this report. First, Dell faces considerable competition from four major firms – HP, Lenovo, Acer, and Toshiba. As of 2009, Dell and these firms occupied over 50% of the global market of PC sales. During 2004-05, Dell was the market leader in terms of PC sales and profits. However, subsequent to this, Dell lost first place standing and a considerable portion of its global market share to its rivals. As of 2010, it lacks a strong means of entry into markets beyond North America and the ability to appeal to segments outside of the corporate and government sectors.

Second, industry convergence has led rivals to produce other products along with PCs. These include peripheral devices, PDAs, smart phones, support software and applications. Dell has been a laggard in this push towards convergence. Ineffective attempts to create an mp3 player (the Dell DJ), a noticeable lack of supporting application software, and a three year delay before entry into the cell phone market have kept Dell from taking market share away from products like the Apple iPod, iTunes and iPhone. This stalled reaction to market demands is a clear indication that Dell needs to address its considerable limitations in terms of its innovative capacity.

Third, branding has also become a considerable issue for Dell. Once a widely recognized brand, Dell no longer carries the same image. The strength of its brand stemmed from a cross functional capability to provide direct sales through its website coupled with its famed JIT & inventory management systems. However, industry changes surrounding digital convergence and consumer requirements pertaining to product accessibility have diminished the potency of this capability. Furthermore, rivals have been able to match and, in some instances surpass, Dell's inventory management by outsourcing their operations and outbound logistics functions.

Finally, in order to regain market share and achieve its new goal of being an integrated digital manufacturer, Dell must revamp its distribution and sales systems. Recently, Dell has gone beyond the direct-to-consumer web based sales approach by selling products through multiple distribution channels. This has included forging alliances



with retailers like Best Buy and Wal-Mart. However, this change of focus has been constrained both in scope and location. Dell's emphasis still lies with its direct sales model and its additional distribution networks are primarily localized to the North American market.

REPORT OUTLINE

INTRODUCTION AND KEY ISSUES

- The relevant issues to be developed are discussed above

EXTERNAL ANALYSIS

General Environment

- American PC sales increased 6% in 2009 from 2008 levels, including 25% in the last quarter, indicating recovery from the global recession.
- The US government has proposed a plan to allocate up to \$420 billion in research and development spending which will have a positive impact on future technology growth.
- Changing demands and values of consumers surrounding integrated, safe and easy to use technologies is prompting rapid industry change and digital convergence.

Industry Analysis

- Porter's Forces Model: There is a high level of rivalry among competing sellers, buyers have high bargaining power, moderate threat of entrants, supplier power is moderate, and there are numerous substitutes of PC products.

Competitors

- Dell's main rivals are HP, Acer, Lenovo and Apple. HP and Acer pose the greatest threat to Dell's primary source of sales – the government and corporate sectors.
- Apple's ability to offer innovative products to the consumer segment continues to place great pressure on all major firms to expand product lines.

Market Life Cycle

- Growth Stage: annual shipments and revenues of primary rivals has consistently increased over the last 10 years.
- Consistent growth with faster and cheaper microprocessors; better operating systems, sophisticated applications drive this demand.

INTERNAL ANALYSIS

Resources

- Physical: Lean inventory systems and sophisticated fixed assets in multiple locations globally.
- Technological: Significant technology stock, as extensive management information systems.
- Financial: High cash resources can allow for a strategic move to improve market share and profit.



Capabilities

- Mass customization: The mass customization capabilities of Dell require efficient inventory control and extensive data collection to ensure customer satisfaction.
- Manufacturing: Beginning to outsource key areas of its production to control costs. However, its famed JIT and Inventory management systems were formerly a core competence.
- Direct-to-Consumer Sales and Logistics: Dell's online store transformed the PC industry by showing that it was possible to eliminate distributors in their supply chain and rely on e-commerce.
- Services: Dell is able to provide significant after-sales PC services, allowing it to make strong inroads into corporate and government sectors with their server and PC sales.

Core competency

- Dell's main core competency currently lies in its ability to provide significant after-sales service, especially to corporate and government customers buying PCs and servers.

Value Chain Analysis

- Designing parts and procedures to ensure low time-in-system without compromising quality or customization is a cross-functional capacity involving logistics and operations primary activities, as well as information technology support activities.
- Providing quality after-sales service to both individual consumers and large business IT departments, a cross-functional capacity encompassing the after-sales service primary activity, as well as human resources and information technology support activities.

Financial Analysis

- Dell faces considerable financial difficulties despite revenue increases of 27% between 2006 and 2009, as demonstrated by a 5.1% decrease in net profit margin over the same period.
- Dell's quick and current ratios meet rival and industry standards but primarily reflect its \$11 Billion cash reserves. Strong cash reserves provide the means for an expansionary move.
- In contrast to HP's trend to decrease R&D and asset expenditures, Dell has increased both. Dell's R&D expenditure increased by 44% to \$663 Million in 2010 reflecting its recognition of a need to offer expanded and innovative product lines.

TENTATIVE STRATEGIC ALTERNATIVES

1. Increased focus on emerging markets by increasing national vendor networks in those countries.
2. Follow differentiation strategy via increased focus on provision of excellent customer service before and after a sale.
3. Restructure Dell to remove itself from the consumer market and focus on developing a core competency with regards to its stronger corporate market.

STRATEGIC RECOMMENDATION

Further analysis is required to present a strategic recommendation for Dell.



REFERENCES

Industry Level Reports:

BBC Business (2009). The Mobile Phone Industry: Industry Snapshot. Retrieved from: <http://news.bbc.co.uk/2/hi/business/469294.stm>

Data Monitor (2010, March). Global PC Industry. Retrieved from Business Source Complete database.

Mergent Online (2010, April 15). *First Quarter North American Industry Report: IT and IT Technology*. Retrieved from Mergent Online database.

Mergent Online (2009, Sept. 22) *Third Quarter North American Industry Report: IT and IT Technology*. Retrieved from Mergent Online database.

Mergent Online (2009, Sept. 17) *Third Quarter EU Industry Report: IT and IT Technology*. Retrieved from Mergent Online database.

Mergent Online (2009, Nov. 04) *Third Quarter Asia Industry Report: IT and IT Technology*. Retrieved from Mergent Online database.

Standard & Poor's (2010, April 22). Computers: Hardware. *Standard & Poor's Industry Surveys*. Retrieved from NetAdvantage database.

Company Specific Sources:

Best Employers South Africa (2009). *Dell, Inc.* Retrieved from: http://www.bestemployers.co.za/Company%20profiles/BEST%20EMP_DELL.pdf

Bloomberg Business Week (2009, March 30). *Meet the Open Cloud Manifesto*. Retrieved from: http://bx.businessweek.com/dell/view?url=http://www.businessweek.com/magazine/content/09_43/b4152036025436.htm%3Fchan%3Dmagazine%2Bchannel_top%2Bstories

Bloomberg Business Week (2010, Feb 19). Dell Drops as Price Cuts, Component Costs Hurt Profits. Retrieved from: <http://www.businessweek.com/news/2010-02-19/dell-declines-after-price-cuts-component-costs-crimp-earnings.html>

Bloomberg Business Week (2009, Oct 15) Dells Extreme Makeover. Retrieved from: http://bx.businessweek.com/dell/view?url=http://www.businessweek.com/magazine/content/09_43/b4152036025436.htm%3Fchan%3Dmagazine%2Bchannel_top%2Bstories

Dell, Inc (2010). 10-K Form. Retrieved from: http://content.dell.com/us/en/corp/d/corporate~secure~en/Documents~FY09_SECForm10K.pdf.aspx

Finkle, J. and Franklin, P. (2010, May 21). *Dell doesn't want to be number one in Smart Phones*. Reuters News. Retrieved from MintGlobal database.

MintGlobal Database (2009) *Company Report: Dell Inc.* Retrieved from MintGlobal database.

Moskowitz, M. (2010, May 21) *Dell Inc: Limited Leverage*. JP Morgan Markets. Retrieved from Investext database.



Pimentel, B. (May 26, 2010). *Dell unveils Plans for Tablet Computer*. Wall Street Journal Online. Retrieved from <http://online.wsj.com/article/SB10001424052748704026204575266212619773840.html>

Rival Firm Sources:

MintGlobal Database (2010) Company Report: Hewlett- Packard 2006-2010. Retrieved from MintGlobal database.

Hewlett-Packard (2009) 10-K fillings. Retrieved from:
<http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsAnnual>

MintGlobal Database (2010) Company Report: Acer Inc. 2005-2009. Retrieved from MintGlobal database.